

## Message Text

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PAGE 01 QUEBEC 00157 161601Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-01  
L-03 NSC-05 PA-01 PRS-01 SS-15 STR-04 /089 W  
-----161605Z 111510/40

R 161550Z APR 77  
FM AMCONSUL QUEBEC  
TO SECSTATE WASHDC 962  
INFO AMEMBASSY OTTAWA  
AMCONSUL MONTREAL  
AMCONSUL TORONTO  
AMCONSUL HALIFAX  
AMCONSUL CALGARY  
AMCONSUL WINNIPEG  
AMCONSUL VANCOUVER

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E.O. 11652: N/A  
TAGS: EFIN, CA  
SUBJECT: OPPOSITION CRITIQUE OF PQ BUDGET AND COMMENTS ON BUDGET  
FINANCING

REF: QUEBEC 0153, QUEBEC 0154

1. SUMMARY. QUEBEC LIBERAL PARTY OPPOSITION HAS CRITICIZED  
PQ BUDGET (REFTELS) FOR BEING LESS RESTRICTIVE THAN IT APPEARS,  
YET IGNORING PRESSING PROBLEM OF UNEMPLOYMENT. IT ESTIMATES  
REGULAR BUDGET OUTLAYS INCREASED 14 PERCENT RATHER THAN 12.5,  
WHILE INCREASE IN BORROWING REQUIREMENT IS OVER \$1 BILLION RATHER THAN  
\$900 MILLION. LIBERALS STRESSED THAT PQ  
POLICY OF INDEPENDENCE, ESPECIALLY SEPARATE MONETARY POLICY,  
WOULD BRING ECONOMIC DECLINE AND WORSE UNEMPLOYMENT. END SUMMARY.  
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PAGE 02 QUEBEC 00157 161601Z

WM RAYMOND GARNEAU, LIBERAL FINANCE MINISTER UNDER BOURASSA  
GOVERNMENT, DELIVERED OPPOSITION CRITIQUE OF PQ BUDGET APRIL 14.  
HE SAID BUDGET NOT AS RESTRICTIVE AS IT APPEARS. TAKING INTO ACCOUNT  
SPENDING OF \$125 MILLION IN FY 1976-77 WHICH WAS FOR RETROACTIVE  
PUBLIC SECTOR WAGES AND BENEFITS APPLICABLE FOR SERVICES  
DURING PREVIOUS FISCAL YEAR, SPENDING BUDGETED FOR COMING

YEAR REPRESENTS 14 PERCENT INCREASE RATHER THAN 12.5 PERCENT STATED IN BUDGET. (COMMENT: WHILE THIS IS TRUE IN AN ACCOUNTING SENSE IN TERMS OF PROGRAMS, BUDGET FIGURE DOES REFLECT DIFFERENTIAL MACRO IMPACT OF REGULAR BUDGET OUTLAYS.)

3. GARNEAU PARTICULARLY (AND PREDICTABLY) CRITICAL OF SMALL SIZE OF OUTLAYS BUDGETED FOR DIRECT JOB CREATION IN VIEW OF HIGH UNEMPLOYMENT. WHILE BUDGET INCLUDED \$80 MILLION FOR THIS PURPOSE, HE NOTED THAT CAPITAL SPENDING FOR AUTOROUTES HAD BEEN CUT \$60 MILLION, LEAVING WHAT HE CONSIDERED ONLY A NET INCREASE OF \$20 MILLION FOR DIRECT IMPACT ON JOBS. HE CONCLUDED THAT THIS SMALL EFFORT, RESTRICTIVE EFFECT OF BUDGET, AND UNCERTAINTY FOR INVESTORS PRODUCED BY PQ SEPARATIST POLICIES COULD ONLY LEAD TO HIGHER UNEMPLOYMENT OVER THE COMING YEAR.

4. HE NOTED THAT BUDGET HAD TAKEN \$135 MILLION FROM SEPARATE HEALTH INSURANCE FUND AND INCLUDED IT AS PART OF BUDGET. THIS ACCOUNTING CHANGE MEANS THAT REAL BORROWING REQUIREMENT, IN CONTRAST TO THAT OF LAST FISCAL YEAR, WAS AN INCREASE OF OVER \$1 BILLION, RATHER THAN \$900 MILLION STATED IN BUDGET.

TM GARNEAU EXPRESSED PARTICULAR CONCERN OVER PREMIER LEVESQUE'S INTENTION TO ACHIEVE "MONETARY SOVEREIGNTY." IF QUEBEC WAS NOT IN MONETARY UNION WITH CANADA, GARNEAU SAID, QUEBECKERS WOULD NOT BE ABLE TO KNOW THE VALUE OF THEIR SAVINGS (IN TERMS OF OTHER CURRENCIES) AND INVESTORS WOULD NOT KNOW THEIR REAL RATE OF RETURN. AS PQ INTENDED TO MAINTAIN CUSTOMS UNION WITH CANADA, GARNEAU SAID, MONETARY UNCERTAINTY WOULD ENCOURAGE INVESTORS TO PUT MONEY ELSEWHERE IN CANADA, KNOWING THEY COULD STILL

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PAGE 03 QUEBEC 00157 161601Z

EXPORT AS NEEDED TO QUEBEC.

6. IN CONVERSATION WITH EMBOFF, GARNEAU SAID THAT QUEBEC COULD PROBABLY BORROW \$400 OR \$500 MILLION FROM THE CAISSE DE DEPOT (QUEBEC GOVERNMENT PENSION FUND) THIS YEAR, BUT IT WAS NOT CLEAR WHERE REMAINDER OF FINANCING COULD BE FOUND. BANKS, SAVINGS INSTITUTIONS, AND INSURANCE COMPANIES IN QUEBEC AND TORONTO MIGHT MAKE UP PART BUT NOT NECESSARILY ALL OF REMAINING BALANCE. SALES OF QUEBEC SAVINGS BONDS TO PUBLIC, WHICH WERE NOT MENTIONED IN BUDGET, IS ANOTHER POSSIBLE SOURCE. HE DID NOT EXPECT QUEBEC WOULD BE ABLE TO MAKE PUBLIC BOND ISSUE IN U.S., BUT SAID SOME PRIVATE

PLACES IN THE U.S. WAS POSSIBLE.

7. OFFICIALS AT QUEBEC MINISTRY OF FINANCE WERE NON-COMMITTAL TO EMBOFF ABOUT SOURCES OF FINANCING IN COMING FISCAL YEAR. THEY INDICATED THAT SOME FURTHER BORROWING IN EUROPEAN MARKETS WAS AVAILABLE, ESPECIALLY IN DM OR SWISS FRANCS, BUT THAT EXCHANGE RISK MADE THIS SOURCE SOMETHING OF A LAST RESORT. THEY NOTED THAT

EXCHANGE

RATE CHANGES HAD PRODUCED EFFECTIVE INTEREST RATE FOR QUEBEC  
OF OVER 21 PERCENT ON A DM ISSUE MADE SOME YEARS AGO.

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## Message Attributes

**Automatic Decaptoning:** X  
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**Channel Indicators:** n/a  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
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**To:** STATE  
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